

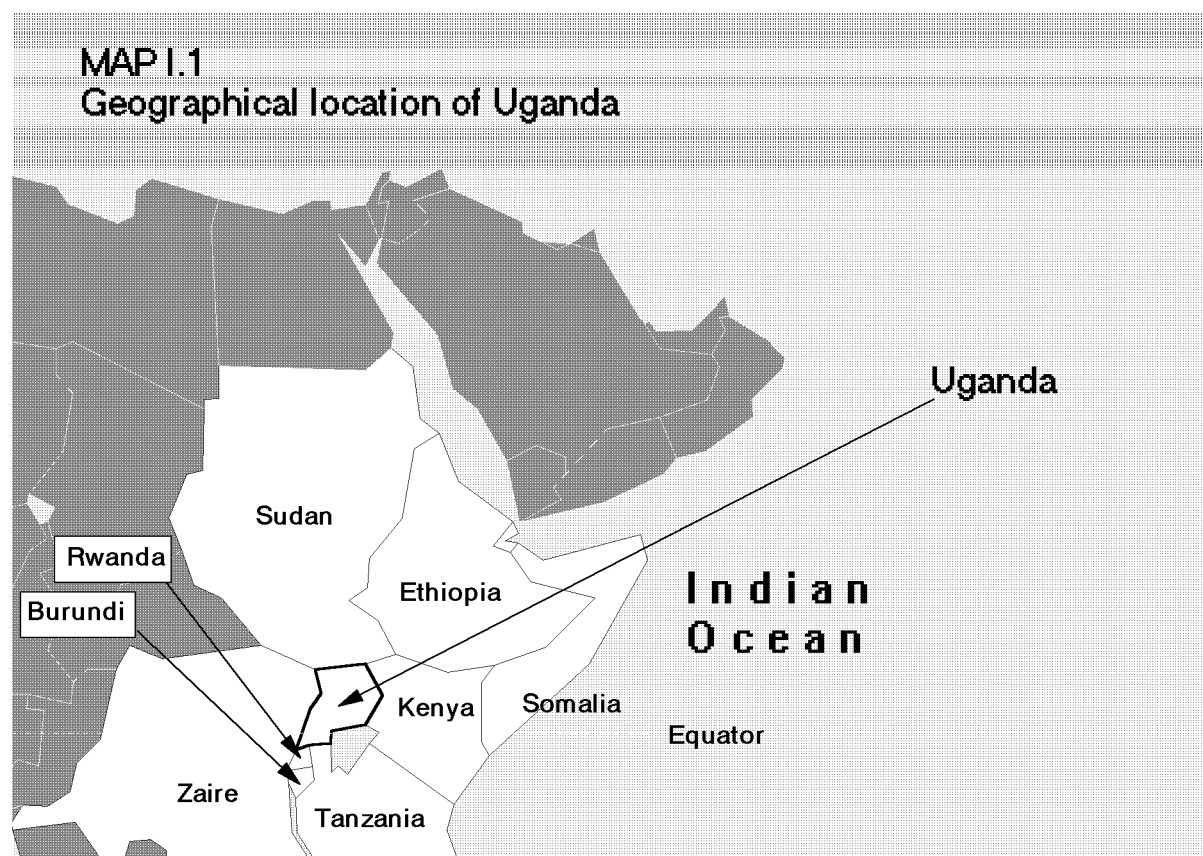
## I. THE ECONOMIC AND TRADE ENVIRONMENT

1. The Republic of Uganda, a member of the Commonwealth, became independent in October 1962. Between the 1970s and the entry into office of President Yoweri Museveni in 1986, it suffered extended periods of severe political turbulence, marked by frequent changes in government, military coups and civil war. Since 1986 stability has been restored, and the economy is now recovering from a very low base.

### (1) Major Features of the Ugandan Economy

2. With a per capita income of some US\$200, Uganda currently ranks among the poorest countries in the world (Table I.1). However, this is attributable mainly to internal problems of the past and, thus, amenable to political and economic reform. Capitalizing on reforms since 1987 and on massive foreign support for infrastructural rehabilitation, the Ugandan economy has expanded rapidly in recent years, with average GDP growth exceeding 5 per cent (Table I.2).

3. With an equatorial climate moderated by altitude, regular and reliable rainfall, and fertile soils, Uganda offers advantageous conditions for farming. About 80 per cent of the country's 240 thousand sq.km. is potentially arable.



4. Agriculture currently absorbs 80 per cent of the country's labour force, contributes 50 per cent of GDP and 90 per cent of export earnings. Cultivation of food crops - bananas (*matoke*), cassava, sweet potatoes, millet and maize - is by far the most important domestic activity, while coffee dominates exports. Agricultural processing industries (coffee, beverages, textiles, leather) are the mainstay of Uganda's small manufacturing sector, whose share in GDP is less than 10 per cent. Manufacturing activities may, however, increase in scope as infrastructural bottlenecks are eased and economic integration with neighbouring countries proceeds (Chapter II(5)(ii)). The same holds for the tourist industry, which seeks to regain its previous rôle as the country's second most important export earner.

**Table I.1**  
**Main social and economic indicators, 1993**

Area	241,038 sq.km.	Share in GDP at factor cost (1991 prices)	
Land	197,097 sq.km.	Agriculture	49.9
Water and swamps	43,942 sq.km.	Industry	7.1
		Services	39.3
Population	18.0 million	Construction	6.1
Population growth (1980/93)	2.7 per cent	Wholesale and retail trade	12.1
Birth rate (per thousand)	7 per cent <sup>a</sup>	Hotels and restaurants	1.4
Life expectancy	43 years <sup>a</sup>	Transport and communication	4.2
Primary school enrolment ratio	71 per cent <sup>a</sup>	Community services	15.5
		Other (owner-occupied dwellings)	2.9
Labour force (share in population)	49.4 per cent	Share in employment <sup>b</sup>	
Nominal GDP	US\$ 4,019.4 billion	Agriculture	80.1
Monetary economy	US\$ 2,926.5 billion	Industry	3.3
Non-monetary economy	US\$ 1,092.9 billion	Services	16.6
GDP per capita	US\$ 219,103 (US\$200)		
		Merchandise exports f.o.b.	US\$201.2 million
Consumer price index (1990 = 100)	207	Merchandise imports f.o.b.	US\$597.1 million
		Exports of goods and services/GDP	6.2 per cent
Exchange rate (per US\$)	US\$ 1,195	Imports of goods and services/GDP	21.1 per cent

a 1992 figures.

b 1991 figures.

Source: World Bank, IMF and Bank of Uganda.

5. Uganda's large informal sector - accounting for about one-third of official GDP estimates - is based mainly on small-scale crop production and livestock farming (Table AV.2).<sup>1</sup> During the past periods of political unrest, it provided large parts of the population with the means of survival and today combines with small-scale cash-economy operations to form the basis of much of Uganda's economy. While the dynamism of such small-scale operations is an essential element of Uganda's economic recovery, it may in the medium-term also act as a drag on economic expansion, limiting both the domestic resource base (taxes and private funds) for future investment and the demand potential for fledgling manufacturing services activities.

<sup>1</sup>According to the authorities, the term "non-monetary" sector, used in official statistics, generally refers to economic activities carried out by small-scale production units (less than 5 employees) producing goods and services primarily for self-consumption. The size of the sector is estimated on the basis of consumption surveys involving some 10,000 households.

6. Reflecting the prevailing sectoral pattern, Uganda's population of around 19 million is predominantly rural. Less than 10 per cent lives in towns of more than 1,000 inhabitants. The structure of the labour force is influenced both by a high birth rate (2.7 per cent) and, increasingly, by the AIDS epidemic and its mounting toll on working capacity and life expectancy.<sup>2</sup>

**Table I.2**  
**Performance of Uganda's economy, 1986-94<sup>a</sup>**

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94 <sup>b</sup>
<b>Annual percentage change</b>								
Real GDP at market prices	1.0	7.7	6.5	5.5	4.4	2.6	7.2	4.5
Exports (in U.S. dollars)	1.0	-22.2	-7.0	-14.2	-2.9	-1.9	-8.7	51.1
Imports (in U.S. dollars)	30.0	4.7	1.1	-7.4	-6.2	-17.3	27.2	22.6
Terms of trade	-11.0	-28.0	-25.0	-24.0	-14.0	-14.2	-1.9	38.6
Inflation rate	n.a.	199.1	76.8	2.9	32.0	62.9	-0.6	16.1
Money supply (M2)	n.a.	n.a.	22.4	56.0	46.8	53.4	42.0	33.4
<b>Per cent</b>								
Interest rates (on savings deposits)	n.a.	28.0	33.0	30.0	32.0	21.0	15.0	2.0
<b>Index 1990 = 100 (Period averages, calendar year)<sup>c</sup></b>								
Real effective exchange rate	558	435	482	569	931	1,215	1,333	...
<b>Per cent of GDP</b>								
Gross domestic investment	9.2	11.6	12.7	13.0	16.3	16.5	16.3	16.4
Gross domestic savings	-12.6	-10.6	-8.4	-3.4	-1.1	1.0	-0.7	2.2
Balance on current account (excluding grants)	-1.3 (-1.8)	-9.6 (-14.0)	-9.8 (-16.9)	-10.5 (-16.7)	-8.1 (-19.4)	-5.2 (-13.3)	-3.2 (-11.7)	-2.2 (-8.8)
Public sector balance	-4.6	-5.8	-5.2	-6.4	-7.9	-14.5	-12.6	-10.9
Net foreign financing	0.5	2.2	2.2	6.6	3.6	5.2	5.2	6.4
Domestic bank financing	4.3	2.0	1.4	-1.4	0.2	1.9	-0.4	-0.8
Domestic non-bank financing	-	-	0.1	-0.2	0.3	0.2	-0.2	0.2
<b>Per cent of exports of goods and non-factor services</b>								
External debt <sup>d</sup>	309.0	563.0	626.0	895.0	1,246.2	1,357.8	1,300.7	909.5
Debt service ratio <sup>d</sup>	54.0	62.0	74.0	81.0	95.9	127.7	85.1	56.5
<b>In months of imports of goods and non-factor services</b>								
Foreign exchange reserves	0.7	0.7	0.8	0.5	1.3	2.2	1.8	2.9

a Uganda's fiscal year starts on 1 July.

b Estimates.

c An increase signifies a depreciation.

d Including Fund obligations.

Source: IMF (1995), *Uganda: Adjustment with Growth 1987/94*, Washington D.C.; World Bank (1994), *Macroeconomic Reform and Growth in Africa*, Policy Research Working Paper 1394, Washington D.C.

<sup>2</sup>According to a Government estimate, around 5 per cent of the population (565,000 adults and 250,000 children) may die of the epidemic by 1998. *Marchés tropicaux*, 18 November 1994.

(2) Economic Performance

(i) Developments up to the mid-1980s

7. On independence in 1962, Uganda's economic fortunes appeared solidly based on a favourable natural environment and relatively well developed infrastructure. However, the political system, based on the co-existence of a central republican régime and traditional kingdoms, proved too fragile. Under the Amin régime (1971-79) the country degenerated into civil war and ethnic strife. The expulsion of Ugandan Asians deprived the country of managerial and technical expertise; mass expropriations deterred foreign investors and donors; and continued fighting devastated the country's physical infrastructure and undermined its human capital base. The second Obote Government (1980-85) launched an economic recovery plan (Reconstruction Programme), hinging on currency devaluation, cuts in government spending, price deregulation, and price incentives for farmers. Restoration of previous ownership under the Expropriated Properties Act was intended to regain investors' confidence.<sup>3</sup> Economic improvements, however, were short-lived as civil turmoil was rekindled.

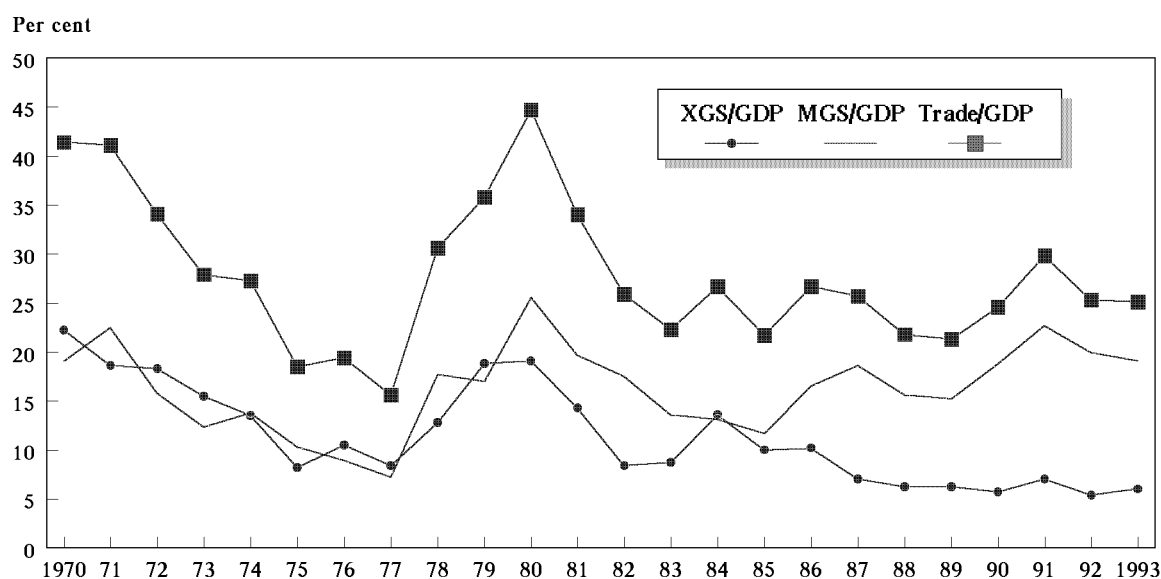
8. Erratic and inconsistent policy management discouraged formal economic activities, in particular production for exports: administered producer prices for cash crops were rarely raised in line with inflation and resulted in a sharp fall in real farm returns; State-owned trade and processing monopolies further stifled farmers' initiatives; rising fiscal deficits, coupled with a narrow tax base, increased the Government's dependence on export taxes, particularly on coffee; and tight foreign exchange allocation procedures discouraged any alternative international activities. The anti-export bias was compounded by a requirement on major cash crop exporters to surrender export proceeds at the over-valued official rate.

9. By the mid-1980s, a once vibrant economy with a strong export sector had virtually ground to a halt, save for small-scale coffee growing and subsistence farming in the informal sector. External trade collapsed (Chart I.1), real GDP tumbled and - fuelled by increased government borrowing and an accommodating monetary policy - inflation reached annual rates of 200 per cent.

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<sup>3</sup>EIU (1993); Europa (1993).

**Chart I.1**  
Trade in goods and non-factor services as shares of GDP,  
1970-93



Note: XGS and MGS denote exports (X) and imports (M) of goods and non-factor services.

Source: World Bank, World Tables, STARS version 2.5.

(ii) Reform and rehabilitation since 1987

(a) Objectives and strategy

10. In May 1987, the Uganda Government launched an Economic Recovery Programme (ERP), centring on the following objectives and measures:

- (i) export competitiveness (narrowing the gap between official and free market exchange rates, liberalizing foreign exchange surrender requirements, and replacing restrictive export licensing requirements by a certification scheme);
- (ii) agricultural policy reform (restoring incentives for producers through the abolition of price controls and inefficient marketing monopolies);
- (iii) foreign investment promotion (introducing investment incentives and guarantees under the Investment Code, returning expropriated properties);
- (iv) Budgetary reform (increasing revenue mobilization and enhancing expenditure control);
- (v) reduction of inflation (preventing excessive monetary expansion, through increased budget discipline and devolution of the Bank of Uganda's commercial banking activities in the area of crop finance).

Reflecting the policy changes, the economy rebounded strongly in 1987 (Chart I.6).

11. Building on progress under the ERP, the Government announced a successor programme - the Rehabilitation and Development Plan (RDP) - in 1993. Its objectives were to increase economic growth to an annual rate of at least 5 per cent; bring down inflation to 5 per cent; further reduce macroeconomic imbalances and improve the external position; and eliminate existing price distortions in product and financial markets.<sup>4</sup> Implementation focused on development and diversification of the export base; mobilization of domestic savings by stimulating private savings and reducing government deficits; investment promotion; reduction of foreign debt; reform of the Government budget with a view to enhancing economic and social effectiveness; and more efficient use of labour and land in rural areas for agricultural production.

(b) Fiscal policy and public sector reform

12. Various initiatives have been taken to streamline and rationalize the budget process and gradually redress Uganda's persistent fiscal imbalance. The development budget was divided into a core sector receiving full funding, and non-core projects to be executed on the basis of resource availability.<sup>5</sup> The civil service, including the army, was reduced in size and a number of poorly-performing public enterprises were privatized, restructured or disbanded (Chapter IV(4)(i)).<sup>6</sup> Export taxes were abolished and efforts made to rebalance the tax system by a move from trade- towards consumption- and income-related taxes (Chart IV.1) and closing tax loopholes. The Uganda Revenue Authority, set up in 1991, is expected to strengthen revenue collection and cut tax and tariff evasion.

13. While fiscal revenue increased significantly from 2.4 per cent of GDP in 1987 to around 7 per cent in 1991 (Chart I.2), it has remained far below the average of comparable African countries (about 18 per cent).<sup>7</sup> Moreover, despite all efforts to restrict spending, the share of public expenditure in GDP has of necessity expanded rapidly, driven by the need to finance infrastructure rehabilitation and modernization. A considerable part of the deficit is financed by foreign aid flows, which represent over 10 per cent of GDP. Further progress in fiscal adjustment depends largely on the broadening of the revenue base, including through the "monetization" of the informal sector; the introduction of a value-added tax is envisaged for 1996 (Chapter IV(2)(iii)).

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<sup>4</sup>MFEP (1993b).

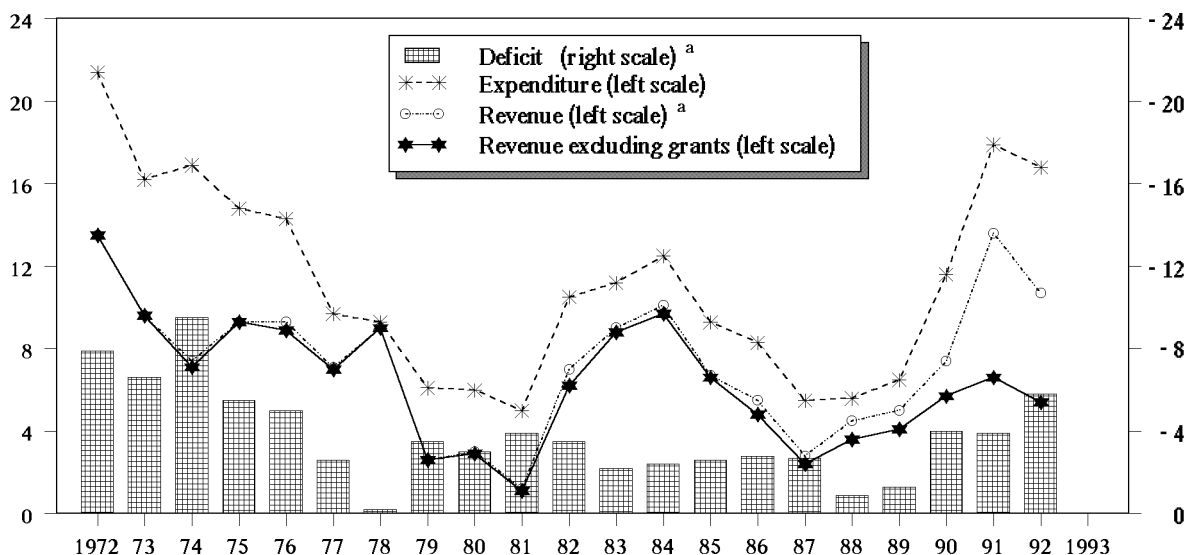
<sup>5</sup>IMF (1994b). In recent years, development expenditure accounted for slightly more than half of total Central Government spending or some 10 per cent of GDP.

<sup>6</sup>Military expenditure fell from 2.4 per cent of GDP in 1991/92 to 1.3 per cent in 1993/94.

<sup>7</sup>UNDP/IBRD (1990); EIU (1995). The decline in the share of revenue for 1992 noted in Chart I.2 reflects the removal of coffee export tax.

**Chart I.2**  
**Share of central Government in GDP, 1972-94**

Percentage of GDP



(a) Including grants.

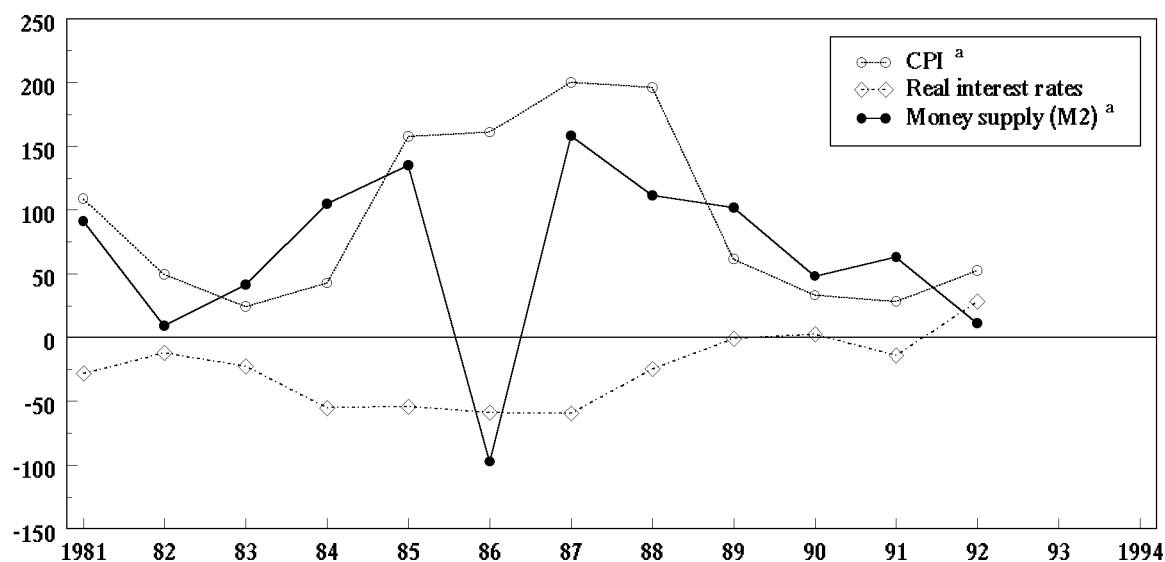
Source: International Monetary Fund.

(c) Monetary policy and financial sector reform.

14. Regaining monetary control has been a major achievement on the macroeconomic front. The growth of money supply (M2) was brought down from over 150 per cent in 1987 to below 50 per cent in 1992 and, in its wake, consumer-price inflation; since 1992, consumer prices have been stable, with annual inflation on a year-end basis around 4 per cent in 1993 and 7 per cent in 1994. Tight control has been maintained on domestic credit, with a marked fall in government borrowing allowing private sector borrowing to expand. Changes in banking legislation have been aimed at enhancing the rôle of the Central Bank and rationalizing its use of interest rates and minimum reserve requirements as the standard instruments of monetary policy.<sup>8</sup>

<sup>8</sup>The Bank of Uganda Statute 1993 strengthens the autonomy of the Central Bank in its internal management and regulatory control over the banking sector. The BOU's stated functions include ensuring "monetary stability"; maintaining adequate reserves of external assets; operating as the banker to the Government and financial institutions; advising the Government on monetary policy; and supervising financial institutions, insurance companies and pension funds. The Bank is governed by a Board of Directors, consisting of the Governor and the Deputy Governor, both appointed by the President; the Secretary to the Treasury; and four to six Directors appointed by the Minister of Finance and Economic Planning. The Minister may, after consultation with the Governor, give "directions of a general nature". Besides, if the Minister considers that policies are "not adequate for, or conducive to, the achievement of the functions of the Bank", he may, with Cabinet approval, issue a directive determining specific policies. The directive must be submitted to the Legislature within 15 days.

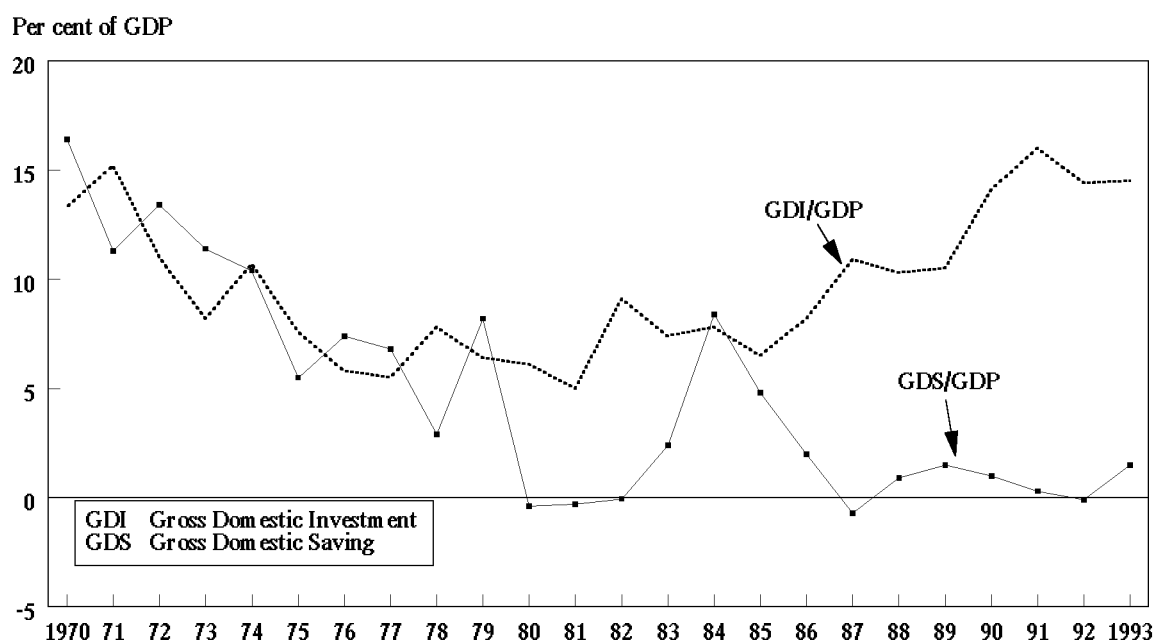
Chart I.3  
Monetary policy indicators, 1981-94



(a) Annual percentage change.

Source: Bouton, et al. (1994); Bank of Uganda.

Chart I.4  
Investment and saving as shares of GDP, 1970-93



Source: World Bank.



15. With lower inflation, real interest rates turned positive in 1990 for the first time in many years and have remained so since then. However, while investment has recovered sharply in a more stable and remunerative economic environment, domestic savings have not yet responded significantly, leading to the deterioration in the current account since 1986 (Charts I.3 and I.4).

16. The Government has stepped up efforts to enhance the efficiency of the banking sector with a view, *inter alia*, to mobilizing additional savings and using it efficiently for upgrading and expanding the country's capital stock. In addition, much is being done, including through incentives under the 1991 Investment Code, to attract private foreign investors (Chapter III(2)(ii)).

(d) Exchange rate and external accounts

17. Uganda's fixed exchange-rate régime of the 1980s, in an inflationary environment, led to significant over-valuation of the official rate. The premium over the parallel market rate exceeded 600 per cent in 1986.<sup>9</sup> As a first step towards exchange rate unification, the parallel market was legalized in July 1990 and handed over to authorized foreign exchange bureaux. In January 1992, an auction system was introduced for official foreign exchange and, finally, in November 1993 an interbank foreign exchange market established to take over both the official and parallel markets within a unified floating exchange rate system. Today, according to the authorities, the BOU intervenes only to smooth wide fluctuations or achieve clearly defined policy objectives.

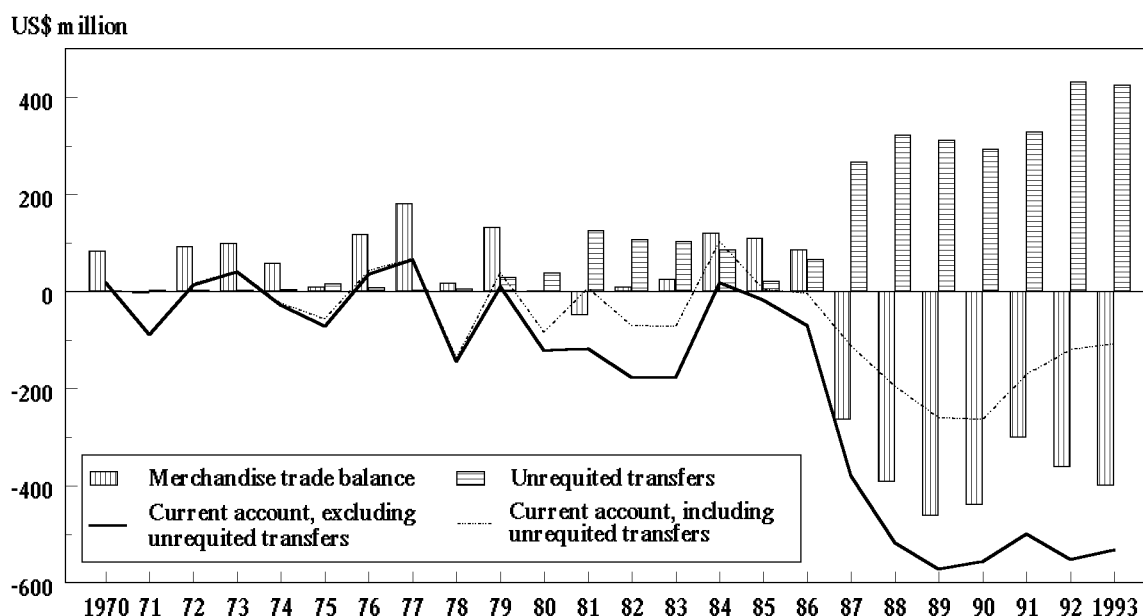
18. Since a devaluation of some 70 per cent in May 1987, setting the exchange rate at U Sh 60 per U.S. dollar, the shilling's external value fell to about U Sh 1,200 by December 1993. Reflecting the composition of Uganda's export and import baskets (coffee versus equipment and machinery), and the impact of the coffee price slump, the merchandise trade deficit widened despite strong nominal and real depreciation (Table I.2). Concurrently, the current account deteriorated until recently as domestic savings continued to fall short of the country's investment needs (Chart I.5).

19. In early 1995, the exchange rate rebounded to around U Sh 1,000 per U.S. dollar. The authorities attribute the rise in particular to the strengthening of international coffee prices, low inflation with positive interest rates, investors' growing confidence in the Ugandan economy, repatriation of funds for the rehabilitation of returned Asian properties, and foreign aid flows channelled through Uganda towards Rwanda. While the recent surge in world coffee prices is likely to improve Uganda's external accounts, at least temporarily, the Government is concerned that the accompanying upward pressure on the shilling may hinder export diversification. A Coffee Stabilization Tax was introduced in October 1994, in part to relieve such appreciation (Chapter IV(3)(ii), Box I.1).

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<sup>9</sup>Kasekende and Ssemogerere (1994). See also Bouton et al. (1994).

Chart I.5  
Balance of payments, 1970-93



Source: IMF, Figures for 87-93 are from the Bank of Uganda.

(e) Trade liberalization and market deregulation

20. Structural reform, through economic liberalization and deregulation, is at the root of the Ugandan authorities' strategy to enhance the intensity and efficiency of resource use and encourage diversification into non-traditional industries. The dissolution of long-entrenched State marketing and processing monopolies has thus been accompanied by the abolition of price controls, the termination of most import bans, gradual tariff liberalization, and the introduction of more streamlined import and export procedures (Chapter IV(2)).

(f) Recent economic expansion

21. The performance of the Ugandan economy under the Economic Recovery Programme and its 1993 successor (Rehabilitation and Development Plan) has been impressive (Chart I.6). The economy started expanding rapidly in 1987, culminating to a record 7.2 per cent growth in 1992/93. In 1993/94, GDP growth slowed down to 4.5 per cent, due mainly to the impact of drought on food crop growing; the industrial sector expanded vigorously, recording 15 per cent increase in the production index.<sup>10</sup>

<sup>10</sup>MFEP (1994a); MFEP (1994b).

**Box I.1****Export booms, currency revaluation and state intervention**

A sudden sector-specific export boom, causing significant foreign reserve inflows and upward pressure on the real exchange rate, may put other export sectors and import-competing industries under unexpected adjustment pressure. The boom may be triggered by such events as the exploitation of new oil fields or mineral deposits, or by world price surges. Concurrently, the benefiting sectors may be petroleum and gas (Netherlands, United Kingdom, Nigeria, OPEC countries), mining (Australia) or coffee growing (Kenya, Uganda). The activities placed under pressure may include conventional manufacturing sectors but also agriculture, particularly in the case of developing countries. (Such sudden changes are not to be confounded with more regular, non-disruptive shifts in factor endowment, demand and relative prices which, for example, are at the root of the decline of farming in most industrial countries.)

The adjustment pressure on sectors not subject to the export boom generally results from three effects:

- (i) Spending effect: The extra income generated in the benefiting industry is spent on both tradeable and non-tradeable goods. While increased demand for non-tradeables will raise prices in the internal sector, prices for tradeables - determined by world market conditions - will remain unchanged. The consequent appreciation of the real exchange rate (as measured by the prices of non-tradeables relative to tradeables) will tend to lower the output of the traditional tradeables sector.
- (ii) Direct resource movement effect: The boom could translate into factor price increases (e.g. wages) in the benefiting sectors and, thus, induce resource movements towards these sectors from the traditional tradeables industries.
- (iii) Indirect resource movement effect: Similar movements from the non-tradeables industries will encourage further price increases in these industries and, thus, strengthen the initial spending effect on the traditional export sector (further exchange rate appreciation and output contraction).

The strength of these effects depends on a number of factors, including the use of the income gains in booming industries and the degree of substitutability between domestic and foreign goods. Import-competing industries in developing countries, whose products are often imperfect substitutes for imports, may be less affected than such industries in industrial countries, while the non-benefiting export sectors - e.g. cash crops other than coffee in the case of Uganda - may suffer more.

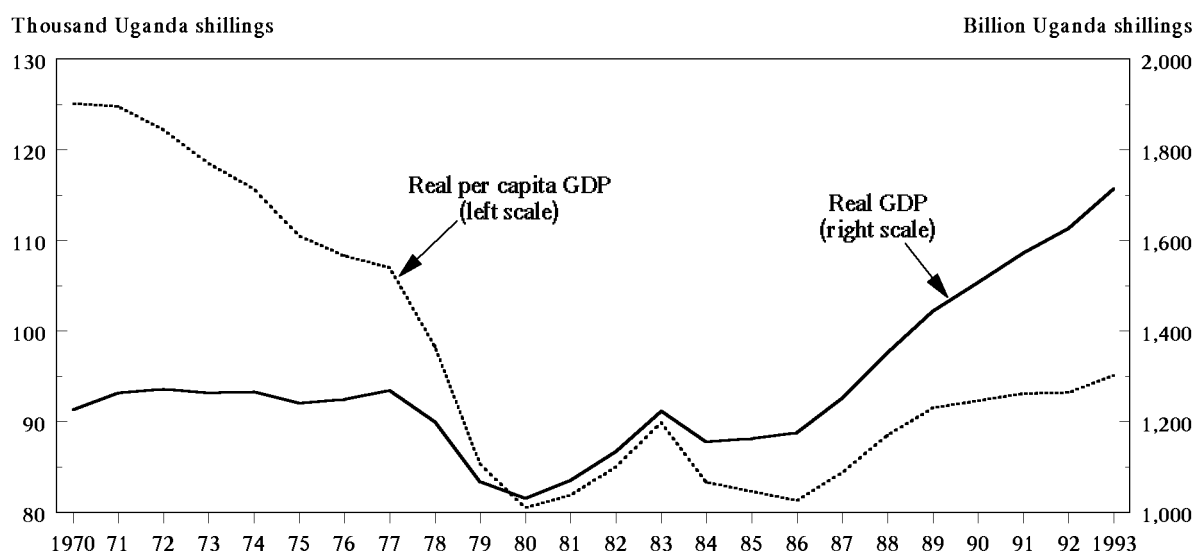
Several government initiatives are conceivable to ease adjustment pressures on affected sectors. One line of action is absorption by the Central Bank of currency inflows through foreign exchange purchases. To avoid real appreciation via inflation, these purchases would need to be coupled with monetary action to prevent an increase in money supply, and/or with fiscal tightening. The first approach might prove difficult in the absence of appropriate monetary instruments, and the second could be hampered by an inefficient tax collection and enforcement system. While a tax targeted specifically at the booming activities may offer the advantage of easy implementation, in particular if the number of operators (producers or traders) is limited, it also risks cementing relative prices. Such a tax would be warranted only if the boom is temporary, as opposed to a lasting change in world market conditions which would allow permanent income gains.

**Box I.1 (cont'd)**

If passed through to the farm level, the coffee boom would provide a welcome opportunity for many small Ugandan farmers to upgrade their assets after a long period of depression and disinvestment. However, this would require current financial sector reforms to be accelerated with a view to improving financial intermediation, encouraging longer-term saving and investment decisions and improving resource efficiency.

Source: Benjamin (1990); Benjamin et al. (1989); Caves and Jones (1985); Cooper et al. (1982); Corden (1994); Corden and Neary (1982); Coussy (1991); GATT (1993); GATT (1995a); MFEP (1994a); Sharer et al. (1995); Sid Ahmed (1987).

Chart I.6  
Real GDP, 1970-93<sup>a</sup>



<sup>a</sup> At 1990 prices.

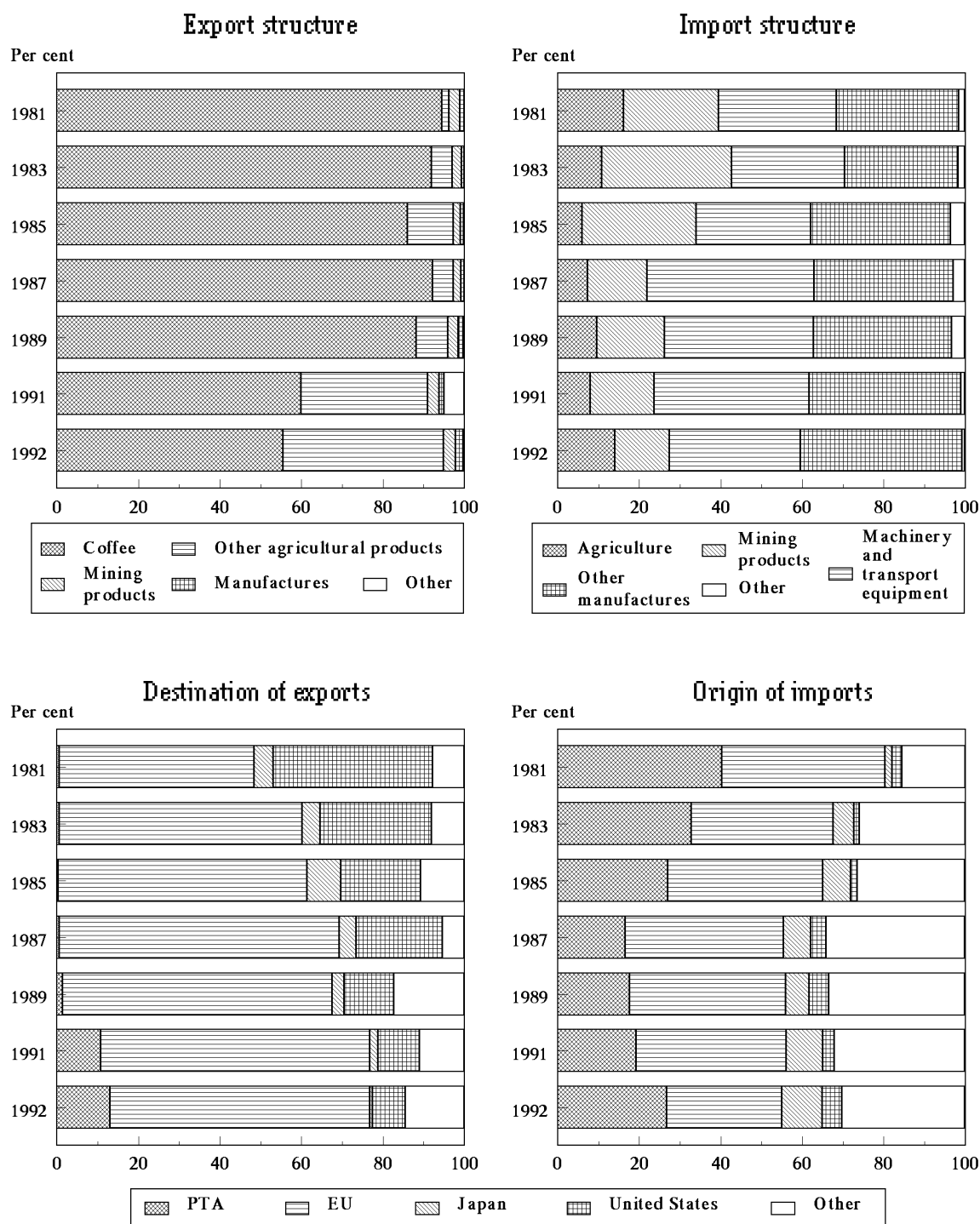
Source: International Monetary Fund; World Bank.

### (3) Composition and Direction of Trade

#### (i) Merchandise trade

22. Between 1985 and 1992, Uganda's exports halved in value, reflecting in particular the collapse of world coffee prices. At the same time, however, exports of other traditional crops (tea, cotton, tobacco) and of non-traditional primary products (fish, cereals) picked up. Some increases also took place in manufactured exports, although Uganda's export basket has remained dominated by agricultural products, accounting for 90 per cent of the total in 1992. The trend towards some export diversification appears to have benefited from the past devaluation of the shilling, encouraging the recovery of export crop production, as well as relief supplies to neighbouring countries and, more fundamentally, regional trade liberalization under PTA/COMESA (Chapter II(5)(ii)(a)).

Chart I.7  
Composition and direction of trade, 1981-92



Source: Government of Uganda.

23. The change in commodity trade patterns went hand in hand with a geographical reorientation of Uganda's exports (Chart I.7, Table AI.3). Available data, while subject to considerable uncertainties<sup>11</sup>, point to a sharp decline of exports to the United States over the past decade. By contrast, no lasting changes are discernible in supplies to the European Union, Uganda's most important export destination. The recent increase in non-traditional exports coincided with the emergence of the PTA/COMESA area as Uganda's second largest export market.

24. Buoyed by donor financing after the restoration of peace in 1987, imports jumped by almost 50 per cent (Table AI.2). They were driven mainly by supplies of machinery and transport equipment, benefiting in particular exporters in Japan and the United States. The European Union has remained Uganda's single most important source of imports, while other traditional suppliers - Kenya and other PTA/COMESA countries, India and Pakistan - have lost shares.

(ii) Services trade

25. Uganda has consistently been a net importer of services (non-factor services). While tourist receipts have grown in recent years, outflows expanded more rapidly due to increased payments for technical assistance as well as for travel, educational, medical and other services.<sup>12</sup> No detailed statistics are available.

(4) Outlook

26. In line with the macroeconomic targets promulgated in the Recovery and Development Plan, the authorities forecast that real GDP will expand by over 5 per cent in 1994/95. Inflation is expected to come down from some 16 per cent in 1993/94 to 7.5 per cent in 1994/95 and 5 per cent thereafter. The growth target is based on normal weather conditions, a favourable harvest and the manufacturing sector's continued economic drive. While the coffee boom may buoy up export earnings, estimated at over US\$500 million in 1995, the strength of the shilling may affect the development of alternative activities.

27. High continued economic expansion depends essentially on the country's ability to promote agricultural production, encourage diversification within and outside the farm sector, gradually integrate its large informal sector and ease the current account constraint. This, in turn, presupposes a policy that diminishes anti-export bias in the structure of effective protection and encourages both domestic capital formation and new inflows of foreign investment.

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<sup>11</sup>Uncertainties are related, *inter alia*, to the attribution to final destinations of shipments via Kenya.

<sup>12</sup>BOU, Economic Report 1986/1991.

**Annex I.1****Foreign Exchange Controls**Legal Framework

28. Under the Bank of Uganda Statute of 1993, the BOU, in consultation with the Minister, prescribes the framework for determining the external value of the shilling. The Bank is empowered to buy and sell foreign currency at rates determined by market conditions or on terms that may be decided by its Board of Directors, and to administer any exchange controls on behalf of the Ministry of Finance and Economic Planning.<sup>13</sup> The BOU must maintain a reserve of external assets at least equal to four weeks' import requirements (Section 32).

29. Following the introduction of a floating exchange rate system, Uganda accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Agreement in April 1994. In addition, like other participants in the Common Market for Eastern and Southern Africa (COMESA), Uganda undertook to permit the free movement of capital to and from members. Controls on COMESA-internal capital transfers are to be removed in accordance with a timetable determined by the Council of Ministers (Article 81).

Exchange Arrangement

30. The exchange value of the Uganda Shilling (U Sh) is determined freely in the interbank foreign exchange market. The rates offered by private foreign exchange bureaux at retail level are slightly lower than the interbank rate, reflecting trading margins.

31. Uganda maintains a regional payments arrangement for intra-COMESA trade (Chapter II(5)(ii)(a)).<sup>14</sup> Exporters may invoice goods and services in their national currency, in the importer's currency, or in Eastern and Southern Africa Currency Units (ESACU). Import payments, in national currency, are debited to the exporter in its own currency. The central banks of the two countries involved settle the accounts with the commercial banks of the importer and exporter.<sup>15</sup> According to the authorities, Uganda does not participate in any other bilateral or regional payment arrangements.

Foreign exchange allocation

32. Imports and import payments are monitored under an Import Certification System.<sup>16</sup> All payments, except debt-service payments, are financed through the interbank foreign exchange markets. Purchase of foreign exchange at foreign exchange bureau must be reported to the BOU, with the

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<sup>13</sup>IMF (1994).

<sup>14</sup>Articles 73, 74 and 174 of the Treaty.

<sup>15</sup>GATT (1995b).

<sup>16</sup>Import restrictions apply to a few items specified on a "negative list" (Chapter IV(2)(vi)).

exception for the following payments: travel, up to US\$4,000 per trip; medical treatment, up to US\$20,000 per person per year; and education, up to US\$15,000 per person per year.<sup>17</sup>

33. Like imports, all exports are subject to certification (Chapter IV(4)(v)); exporters may retain their proceeds and sell them freely in the interbank market. A surrender requirement, relating to coffee and other major exports, was eliminated in 1993 (Chapter V(2)).<sup>18</sup>

34. All inward capital transactions, including between residents and non-residents, are subject to prior approval by the BOU. Inward direct investments must be licensed by the Uganda Investment Authority (Chapter III(2)(i)). To secure later repatriation of profits, investors may apply for a "certificate of incentives" under the Investment Code of 1991 (Chapter III(2)(ii)).

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<sup>17</sup>IMF (1994).

<sup>18</sup>IMF (1994). Although coffee exporters are no longer required to surrender their proceeds at the official exchange rate, they may be required to "repatriate to Uganda all foreign exchange earned in accordance with the laws" (Coffee Regulations 1994, Section 26).